STATENS BOSTADSKREDITNÄMND

Housing policies in a rapidly changing world

Government financial measures to promote homeownership and housing affordability in the Netherlands

19 december 2008

RAPPORT
2008-12-19 Dnr 17-64/08

Förord

Statens Bostadskreditnämnd (BKN) har givit Peter Neuteboom och Kees Dol vid Delft University of Technology i uppdrag att göra en översikt över de statliga finansiella åtgärder som används Nederländerna för att nå bostadspolitiska mål. I uppdraget ingick att redovisa skälen bakom valet av åtgärder samt åtgärdernas effektivitet.

Rapporten är ett led i BKN:s strävan att förbättra kunskapsläget om hur staten medverkar i finansieringen inom bygg- och bostadssektorn i andra länder. Innehållet i rapporten utgör också direkt underlag i BKN:s utredningsarbete rörande former för statlig stimulans till upprustningar och nybyggnation.

Statens bostadskreditnämnd

Per Anders Bergendahl

Housing policies in a rapidly changing world

Government financial measures to promote homeownership and housing affordability in the Netherlands

HOUSING POLICIES IN A RAPIDLY CHANGING WORLD

Government financial measures to promote homeownership and housing affordability in the Netherlands

Study on behalf of

Statens Bostadskreditnämnd (BKN)

Per-Anders Bergendahl

Norrlandsgatan 11, 1 tr.

SE-111 43 STOCKHOLM

Sweden

Final Version
Thursday, December 18, 2008

Authors:

Kees Dol

Peter Neuteboom

P.NEUTEBOOM@TUDELFT.NL

DELFT UNIVERSITY OF TECHNOLOGY / RESEARCH INSTITUTE OTB

Jaffalaan 9

2628 BX DELFT

The Netherlands

PREFACE

Swedish's national housing credit guarantee board (BKN) is a governmental agency to promote the accessibility and affordability of the housing market in Sweden and to offer households a reasonable choice of tenure. Its functioning is not restricted to a certain market segment. To date, it supports both municipal rental associations as well as first-time buyers on the homeownership market by providing credit guarantees to lenders. To promote specifically new housing supply, credit guarantees are also supplied.

Besides these specific tasks, the BKN has a more general task of assisting the (national) government with the formulation of their housing policies, especially in relation to (inter)national capital markets. It is from this perspective that the BKN has a need to keep update on contemporary developments in other countries. In this respect, the Netherlands forms an interesting test case, since policy objectives of the Dutch government closely resemblance that of Sweden.

In this study, contemporary developments in Dutch housing policies will be discussed with an emphasis on housing affordability and homeownership. However, the present credit crisis forces Dutch government - like many governments across Europe and the US - to rethink current housing policies; *i.e.* their sustainability is questionable. Therefore, in this study the current debate and proposed solutions will be addressed as well.

Kees Dol,

Peter Neuteboom

Delft, October 2008

INTRODUCTION

Like all countries, issues concerning housing affordability and homeownership are imbedded in a complex set of housing policies and related policy fields (*e.g.* social, economic, and financial) with many agents at play. Besides that, the impact of past housing policies on the operation of the housing market is long lasting as many changes in such a policy will have its effects only in the long run[1]. Given the multiple, complex, interdependency between housing policy and social, financial and economic policies, path-dependency may be relatively large. Though there may be a noticeable convergence trend across Europe towards the same policy aims, the means ands the instruments that are being utilized may be quite distinct. In addition, more worrisome for policymakers, the impact of policy changes might have different (even adverse) effects given the institutional context in general and/or prevailing economic conditions. Therefore, any discussion of both housing affordability and homeownership should be placed in a meaningful context. Of course, it is the aim of this study to provide such a context. Three lines will be visible in this study:

- From broad to specific: from discussion of housing policies in general, to financial measures to promote housing affordability and homeownership. Here one specific weight shall be given to financial instruments acting on the edge of capital and housing markets.
- From past to future: a milestone in Dutch housing policies changes was the move towards more market-orientation. This was implemented in the early nineties; a good starting point for the analysis of housing policy changes. We will finish off with the current discussion and some outline future pathways.
- From aims to results: The aims, formulated by government, and put into operation by a set of instruments, should be evaluated in terms of efficiency and effectiveness. Here the input (in terms of money) and the outcome (in terms of achievements: who, where, when etc.) will be presented.

These lines of thought will be clearly recognizable in this study.

This report is divided into four sections; the first section constitutes a brief overview of contemporary developments in the Netherlands with respect to housing policies. Next, we will focus on housing affordability and promoting homeownership; *i.e.* two areas of prime importance within Dutch housing policy, but also the most relevant for BKN. In both sections, aims, instruments and the impact are discussed. Next, we will address the future. What is the present debate about and in which direction will future housing policy in the Netherlands go? Here, the possible impact of the credit crisis will be dealt with as well.

A TALE OF CONTINUOUS CHANGE

State intervention in the housing of the population has a long history in the Netherlands. In the second half of the 19th century, housing policy developed from concern for public health and its importance to the economy[2]. This ultimately led to the Housing Act of 1901. Primarily, the purpose of the Act was to uphold minimum quality

[1] Although these paradigms are well understood, they are, however, at odds with day-day-politics!
[2] Over the years, an anti-cyclical policy was not shunned, for the sake of stimulating the construction sector and the economy as a whole.

requirements that had to do with health issues, such as hygiene, air and light. Before World War II, housing was a matter of local municipalities, with the government on a large distance. After 1945, the major housing shortages meant that housing became an important topic of government policy. Until the end of the 1960s the (re)construction of the housing stock was the central aim of government policy. In the early nineteen seventies, government policy intensified further, when the housing policy aimed (redirected) at increasing the average quality levels of housing for all segments in the population. This task became the most important aim for the government and in order to make these (new) higher quality houses affordable for all, a housing allowance was implemented. This meant that regardless of income, each household should be able to afford the higher housing expenditure. In that context, urban renewal came onto the agenda. Where in the 1960s especially demolition of houses, which did not meet minimum quality standards prevailed from the 1970s the occupant in the urban renewal areas became the focal point.

In the period after WWII until the nineties of the last century, the government orchestrated housing in detail. The instruments that were put into play were decisive for virtually the entire housing market. Through the planning- and programming cycle the housing construction program was determined in both the rental market and the homeownership market. With the help of land and construction cost subsidies total costs were reduced. The maximum construction cost and quality requirements were uphold for more than 90 percent of the new construction in both segments of the housing market; partly because of the generous housing grants given by the government. In addition, the aim of upgrading the quality of the pre-war housing stock was achieved through the planning- and programming cycle and the deployment of grants. From mid-eighties onwards, this regime also encompassed the after 1945 -built rental housing. The additional costs caused by the increased quality requirements and construction cost increases, were hedged through subsidies and higher rents.

Rent setting in general and the annual rent increases (including a large part of the private rental sector) were set by government to ensure that the rents of the newly built dwellings remained in balance with those of the existing rental housing stock. For households who still could not pay the rent, there was an additional housing allowances scheme. The implementation of this policy was largely implemented by housing associations; however, government mainly determined the policies of these organisations.

In the 1980s of the last century, there was a fundamental shift in thinking, which has led to major reforms in the housing market. Since then, the housing system has been bit-by-bit altered.
Following the budgetary problems of the government at the beginning of the nineties, the state realized that it took up took too much responsibility for housing where the market and individual households were taking a back seat. In the memorandum "*Housing in the 1990s*" this awareness was translated into policy. Lower-income groups became policy target groups and the quality of the housing stock was largely left to the market, while the government enforced only a minimum by building regulation. At the same time, housing policy was broadened; the physical quality of the house remained subject matter of policy, but there was additional attention to the liveability of districts and neighbourhoods. In the memorandum "*People, Wishes, Living*", th is broader domain of the policy was continued. For the instruments of housing policy, this turnaround had great implications. In the period 1990-1998, the prevailing aims and instruments of housing policy were left over to the private market or

decentralized to the provinces and municipalities; the prevailing subsidy regime was altered or abolished[3]. As a result of the above reforms, direct public expenditure on housing in recent decades was substantially reduced; from 12 percent of total budget expenditure in 1970 (18 percent including tax expenditure on mortgage interest tax relief) to less than 3 percent in 2006.

The turnaround in 1989, as unfolded in the memorandum "*Housing in the 1990s*", can be interpreted as the rediscovery of the housing market. From the WII, the housing market gradually became more disabled. In the first post-war years, this seamlessly closed with the ideas in socialist-democratic circles about a planned direction of the economic system as a whole. Initially the housing shortages were so great that any institutional considerations had to depart from the political priority of the solution to this problem. Later, priorities on urban and regional planning policies dominated. On the other hand, one cannot say that from 1990 the policy was mainly aimed at improving the market system. The shift in thinking about housing was largely inspired by the need to come to cuts in public spending. Market was not the starting point of reform, but rather an ex-post rationalization of policy reviews, which for budgetary reasons had to be made anyway. The motto became 'more market, less government'. The extensive involvement of the government with public housing was not fundamentally questioned, but rather reconfirmed in the new policy aims (the so-called *Iron Triangle*):

a. The promotion of adequate housing (*availability*)
b. The maintaining of a minimum *quality* of housing and living environment (both physical and social)
c. Assuring enough *affordable* housing

To date, the discussion about the future of housing policy is still going on, notwithstanding recent calls by the government[4] for a standstill on policymaking. Policy reviews and more general analysis - by state agencies and specific stakeholders - on the housing market became widespread (see the final section). The present attention of all these stakeholders and state agencies on the housing market and the effectiveness of its policy is caused by several trends. Firstly, the privatization of housing solutions has led to an increase in house price, but not so much in housing satisfaction; whether they are right or wrong – households themselves feel increasingly restricted in finding adequate housing than in the past. Secondly, the cost of generic support - labelled "housing" - has increased in relative terms substantially. Currently, some 10 percent of government spending is linked to these programs (the including mortgage interest tax deductibility-scheme). This raises, of course, questions about the efficiency of the current instruments. Finally, the credit crisis has attracted once more extra attention to the financial risks that coincide with the present housing system. This applies specifically to the mortgage tax relief-scheme and mortgage guarantees, since both instruments are directly linked to the prevailing conditions on (inter)national financial markets[5]. These trends fuelled the debate on the reformulation of (future) housing policies. See the section on future developments for a more elaborated discussion of this matter.

[3] As could be witnessed in many European countries, two trends have emerged: a shift from production subsidies to consumption subsidies and a stronger focus on the market (Ball and Grilli, 1997).
[4] The present government (social democrats and Christian-democratic party) could not agree on any modification of the status quo.
[5] Rent subsidies coincide, of course, less directly with contemporary developments on financial markets.

THE BEST OF TWO WORLDS: HIGH LIVING STANDARDS AND AFFORDABLE HOUSING

As discussed above, in the 1970s, the explicit aim of upgrading of the (minimum) level of the dwelling quality led to an increase in the number of households for whom the price (rent) was not sustainable, either temporarily or more structural. Gradually, this led to the acceptance by government that housing affordability should be a new housing policy aim. During the 1970 a whole set of instruments was designed (and later abolished) in order to make housing more affordable for, especially, lower income groups.

Here, in this section, we will firstly present some basic facts and figures that should inform the reader about housing consumption and affordability during the last decades. Secondly, we will focus on instruments that were developed to address the housing affordability problem and the reasons for the abolishment (and/or restructuring) of those provisions.

Some facts and Figures

To start off, in Figures 1A en1B, the distribution of the housing expenditure ratio - *i.e.* the net housing costs divided by the net household income - is reported for both renters and homeowners. Both figures show data from 1989 as well as 2006, which gives additional insights on the development of the housing expenditure ratio over the years.

Note that the housing expenditure ratio is a key figure that directly reflects the affordability of housing. However, this figure - like many other ratios - has two weaknesses, one conceptual, one methodological. The conceptual weakness is normative by nature: of course the (un)affordability of housing remains, in essence, a subjective matter. The housing expenditure ratio does not answer the normative question: when are households faced with unaffordable housing, or better phrased, when does society consider housing as unaffordable? Is it if the expenditure ratio exceeds 30, 40 percent or just from 50 percent and onward? Secondly, the ratio shows the percentage of income devoted to housing. Yet, this ratio neglects the absolute level of housing income, *i.e.* the residual income after housing costs may differ considerable making housing more or less affordable. However, since the ratio is of prime importance in the formulation of Dutch housing policies, we use this ratio here as well.

Figure 1A Distribution of housing expenditure to income ratio for renters (1989 versus 2006)

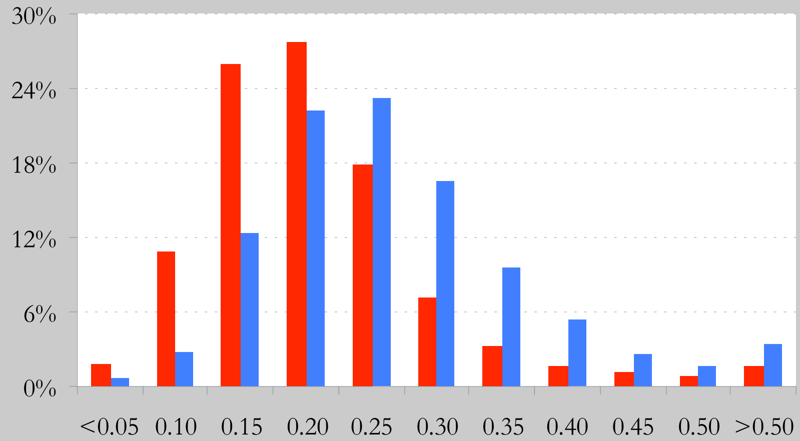
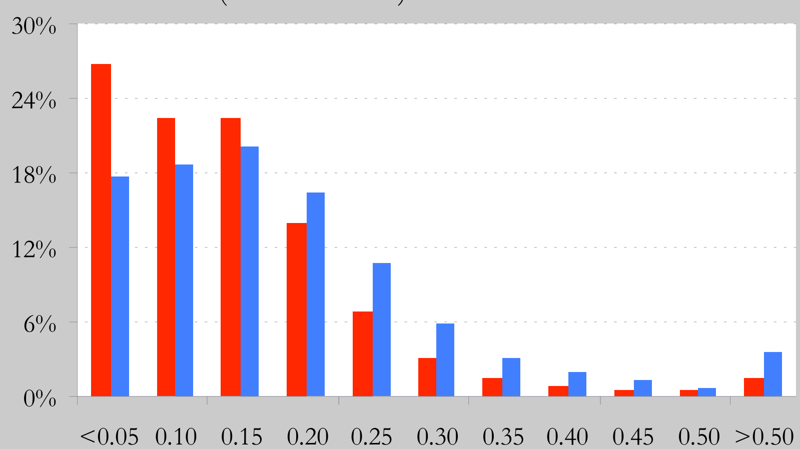


Figure 1B Distribution of housing expenditure to income ratio for homeowners (1989 versus 2006)



Red = 1989; blue = 2006

Source WBO 1989, Woononderzoek 2006 (Housing Need Survey)

It is clear from both graphs, that over the years, households spend a higher proportion of their net income on housing (the distribution shifted to the right); i.e. the net household income growth could not level out the increase in housing costs. The latter increased substantially over the years, partly caused by an (successful) attempt to fade out a lot of housing subsidies. In both tenure sectors real housing costs increased in excess of real income with approximately 33 percent (1989-2006).

However, the causes of the increase per tenure sector were quite divers. In the rental sector, the high real growth stems from the projected policy review. Housing associations, and in their slipstream private property owners, got

the opportunity to follow a more market-orientated approach in setting rent levels[6] [7]. In general this policy led to higher rent levels - in an European context, rent levels in the Netherlands are now 'average', while in the past they were relatively low. The policy change led to a significantly higher government expenditure on housing allowances (as expected); but means-tested subject subsidies are considered as more efficient than general subsidies to, for instance, housing associations.
In the homeownership sector, the boost of the housing expenditure ratio was the result of complex set of events. A period of economic growth in the 1990s led to all-time low interest rates and an increase in income, while the liberalisation of financial markets led to higher accessibility of mortgage credit[8]. Both fuelled demand for homeownership. Since, the supply elasticity on the housing market are notorious low, the increased demand found an outlet in higher house prices. In the period 1989 to 2006, house prices nearly three folded. This huge price increase, in combination with a swell of first-time buyers (with relatively low income, but 'high' loan capacity), offset the earlier mentioned positive developments.

In Table 1, some summary statistics are provided. Given the discussion on the normative meaning of the housing expenditure ratio, this Table shows the percentage of renters and homeowners with high or low housing costs relative to net household income. The two hurdle rates - 25 percent and 35 percent - are considered as the good indicators, proxies, for affordability. To start with the 35 percent hurdle rate: mortgage lenders in the Netherlands use this level in their risk assessment procedure for each loan application. Loan to value ratios are, traditionally, in the Netherlands not very important; each application is assessed by looking primarily at the applicants' creditworthiness and payment capacity. This latter is defined by the rule that the housing expenditure ratio (net of utilities and taxes) remains below the 35 percent threshold. A higher ratio is considered as a good indicator for future unsustainable homeownership[9]. The lowest rate (25 percent) is considered as the marginal value for affordable housing; in between there is a 'grey' area, in which households should (in normative sense) be able to afford their housing; but their financial abilities to set off any unexpected financial setbacks is small.

[6] Following a decade long discussion on the position of housing associations in the Dutch establishment; leading to the conclusion that housing associations should operate as ordinary firms, while at the same time, upholding a social mission (*i.e.* housing low-income groups).
[7] Dutch law protects households against sudden increases of rent by stipulating maximum annual rent increase (nowadays limited to 1 percent above inflation). Whenever the renter moves, the property owner is allowed to set a new rent level at its own discretion (*i.e.* market-level). For the vast majority of the housing stock there is also a maximum rent level set; however, in most submarkets this maximum is considerable higher than the prevailing market level.
[8] Both, more households got access to capital market and at the same time household could borrow substantially more.
[9] This practice is recently laid down in new regulation, see the next section.

Table 1 Summary statistics, average housing expenditure to income ratio, by tenure (also, percentages household with high and low expenditure relative to income)

	Debt-service ratio	Percentage < 25%	Percentage > 35%
Households			
Renters	24.2 [18]	55.4%	10.6%
Homeowners	16.1 [12]	82.4%	7.0%

Between brackets debt-service ratio in 1989

Source WBO 1989, Woononderzoek 2006 (Housing Need Survey)

From Table 1 it is clear that the share of households in the 'danger zone' is relatively small; although in absolute numbers these percentages amount to more than 300,000 renters and 260,000 homeowners. Nevertheless, the numbers of households that *are* actually in arrears are very small (1.2 percent in the rental sector; 0.8 percent in the homeownership sector[10]). Nevertheless, these households are assumed to experience some sort of hidden poverty and are, unquestionably, 'at risk'. Not surprisingly, these households consist mainly of low income and lowly educated; the bulk of them experienced a recent downfall in income following redundancy or divorce[11].

The effectiveness of policy instruments

As briefly discussed in section 2, the Dutch government over the last decade introduced numerous initiatives to enhance the affordability of housing of its citizens.

The glory days of state intervention to financially support households - in order to prevent unaffordable housing - were in the middle of the 1980s. During this era, subsidies were given to housing associations and private property owners to lower actual building costs (to cover both land prices and building costs). In addition, if that was not enough, individuals were eligible for housing allowances and subsidies that gave households a 'grace period' to get accustomed to higher rent levels after a renovation of their home (urban renewal). In the homeownership sector, mortgage interest tax deductibility was by far the most important instrument. Additionally, an extensive housing allowance scheme was in place that covered income related subsidies to homeowners (and even more generous towards first-time buyers).

During the economic crisis of 1980s that hit the Netherlands, as well as many other countries, the political pendulum shifted to a more liberal view. At that time, unemployment was high, as were budget deficits. To stimulate economic growth and especially employment, the view was that taxes on labour should be cut. That was imposed by a series of tax reforms - lowering the marginal tax rates from 70 percent to 52 percent anno 2006 -

[10] Self reported arrears, based on EU-SILC 2006
[11] Note that research shows that the prime cause of households actually being in arrears is not some external factors but merely, money mismanagement

and a restructuring of social safety nets. In order to prevent budget deficits to grow sky-high, the government expenditure needed to be reduced substantially. The prevailing housing subsidy regime was inevitably one of the first 'targets', since the required budget accumulated up to 10 percent of total government expenditure (net of interest payment on outstanding government debt ~15 percent).
However, many parties had a vested interest in the ongoing subsidy flows, including 70 percent of all households and voters (*sic.*) On the supply-side - housing associations, landlords, constructions firms and, last but not least, the financial sector also had their interests. Not unsurprisingly, it took a while before government was able to implement its new aims and ambitions.

Starting with the memorandum "*Housing in the 1990s*" gradually the jumble of instruments was cleared out. Many schemes were abolished, and others replaced, by a more generic system of instruments that should enable households to find their way on the housing market by themselves. Here more emphasis was placed on indirect measures to provide quality, accessibility and affordability of housing for all. However, as last resort, there is - as always - the renowned housing allowance scheme that supports especially low-income households.
To date, after the transformation, four main instruments form the pillars of Dutch housing policies (with respect in ensuring affordability of housing) See Table 2 for an overview. In the rental sector it is still all about rent control with the additional option of means-tested housing allowances, while in the owner-occupied sector mortgage tax deduction is the main instruments. Mortgage guarantees are a cheap and popular instrument to increase the accessibility of the homeownership market. These latter instruments will discussed more elaborately in the next section.

However, these instruments - and their relative impact on housing costs - lead to an inconsistency in Dutch housing policy; this is largely because these forms of demand support are not tenure-neutral. For low-income groups it is financially more attractive to rent a dwelling, while for high-income groups is it financially smart to go for homeownership. Furthermore the moderate rent levels - due to rent control - and recent house price increases make the transition from the rental sector to the homeownership sector more complicated.
In short, governments' policy influences the tenure choice of households. Eventually, this has led to a form of division of citizenship, in which households with high income and/or with high prospects will make it as homeowners and vice versa. Still, unlike in Britain there is no pressing need for (lower income) Dutch households to enter homeownership because the Dutch rental social sector isn't as residualised as in Britain. The Dutch social rental sector is highly competitive both in quality and in price. Therefore, the low-income sub prime borrowers that aimed for home ownership by taking out too high loans and now cause so much financial concerns in Britain and The United States, are quite an unfamiliar phenomenon in the Netherlands. Most of these households live in the rental sector in the Netherlands where they can rely on state support. However, this division has led to an accumulation of social, economic and safety problems in some parts of the rental sector[12]. In Dutch housing policies, these areas are called 'Vogelaar-wijken' (named after the former Minister of Housing); large-scale urban renewal is part of the answer for this 'new' challenge.

---

[12] Nonetheless, these problems should not be exaggerated: the social rental sector in the Netherlands (2.2 million dwellings) is neither residualised nor stigmatized (like in many countries across Europe).

Table 2 Goverments' main policy instruments for the housing market (2008, the Netherlands)

	Short description	Benificiaries	Available budget
		in 1,000	*in billions*
Rental sector			
Rent allowance	The scheme offers low-income household a rent allowance. The allowance is income related and depends also on the quality of the rental dwelling. Maximum rent to remain eligible for the allowance is set on 631 while households have to pay a minumum rent of 187 (above 348, just 75% is subsidized)	1.0 million	€ 1.5 billion (2007)
Rent protection	Maximum rent increases for individual contracts is limited to 1% above inflation, while total rent increase - on firm level - is maximized to 3.5%. Finally maximum rent levels are controlled for almost 95% of the housing stock.	3.2. rental dwellings	n.a.
Homeownership sector			
Mortgage tax deductibility	Mortgage interest paid is deductible from taxable income at marginal tax rates (maximum 52%). In recent years a few minor limitations have taken place: (a) restriction to a period of 30 years and (b) consumer loan rule.	3.3 million	€ 9.9 billion (2005)
Mortgage gurantees	The national mortgage guarantee can be obtained when a mortgage is taken out for the purchase and/or refurbishment of a dwelling. The fund stands surety for the repayment of mortgage payments to the lender; i.e. the fund will any residual debt to the lender.	0.9 million	n.a.

Source Department of Finance; Department of Housing, Urban Planning and the Environment

The changing position of the first-time buyer

The Dutch homeownership market was in turmoil during the 1990s and early this century: a doubling of house prices, fuelled by all-time low interest rates, financial liberalization and high demand. The homeownership rate has increased from 42 percent in 1985 to 54 percent in 2006. Although household incomes have risen as well over this period, there is growing concern that successive house price increases have made the homeownership sector less accessible. While the fundamental factors underlying this trend were more generic, regional difference could be witnessed as well, with rather low opportunities for first-time buyers entering the Western part of the Netherlands. In recent periods, starters on the housing market received regularly broad public and political attention. These concerns were quickly followed by a call for - or initiatives to - specific measures to assist first-time buyers. On the other hand, low accessibility of housing for first-time buyers should not be exaggerated. It is inherent to the functioning of the homeownership market that outsiders (the first-time buyers) have a relatively inferior position on the housing market, because their 'purchasing power' is - by the general lack of home equity - often low compared to the insiders (the current group owner-occupiers). Therefore, despite all the discussions, in 2005/6 more than 342-thousand were able to start on the housing market; the vast majority of them started in the rental sector (77 percent vs. 23 percent). In addition, some 181-thousand households moved during these years from the rental sector to the homeownership market; hence, the total number of first-time buyers was approx. 259-thousand. On the other hand just over 79 thousand households were unsuccessful, *i.e.* they were willing to buy, but did not succeed.

In the next section the promotion of homeownership will be discussed; especially the (changing) position of first-time buyers will be dealt with.

TENURE NEUTRALITY?, HOMEOWNERSHIP IS THE PLACE TO BE!

Already at the beginning of the 1960s, the promotion of homeownership was a widely targeted housing policy aim in the Netherlands. Former doubts about the desirability of homeownership amongst the working class disappeared with the increase of wealth and general living standards. In the second half of the 1960s, the emphasis of the incentives in the 'promotion campaign' shifted from a specific focus on lower income groups to a more liberal policy and general encouragement of homeownership. The memorandum "*Housing in the 1990s*" called for a government withdrawal and more empowerment of (responsibility for) other agents; encouraging homeownership seamlessly fitted in. In the later memorandum "*People, Wishes, Living*", the promotion of homeownership was explicitly presented as a policy to facilitate freedom of choice and autonomy for consumers. Over the years, direct subsidies were abolished; while indirect measures - like mortgage guarantees - were favoured; the mortgage interest tax deductibility-scheme has remained the only constant factor in housing.

Not surprisingly, homeownership has gained in popularity over the years; also, partly due to the substantial rent increases and abolishment of subsidies, and the boost of the homeownership market during the 1990s. Immediately after WWII, the homeownership sector in the Netherlands covered 28 percent of the total housing stock; anno 2006 this percentage has risen to 56 percent. However, the official policy target - as expressed in the memorandum "*People, Wishes, Living*" - 65 percent in 2015 is a percentage that surely will not be met.

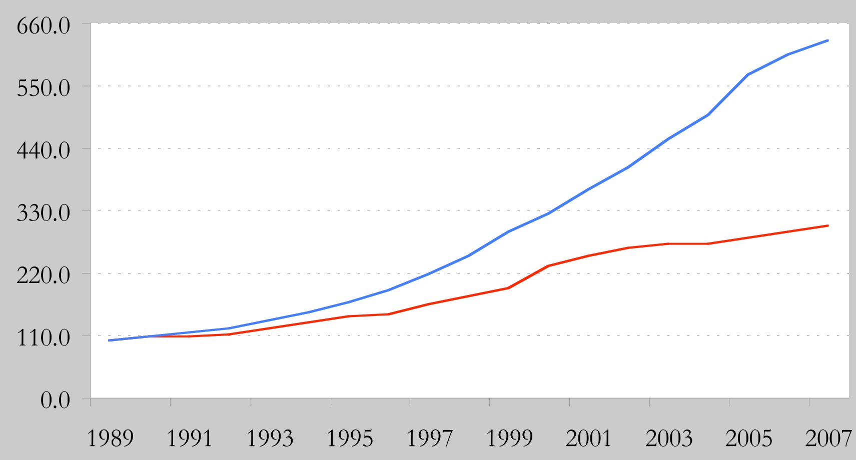
Some facts and Figures

Over the last decades, housing market developments in the Netherlands were quite hefty. Both demand and supply side factors contribute to that. Here, we briefly summarize the main drivers of change and the housing market outcome; see Boelhouwer (2002, 2005) for a more extensive discussion of these trends and issues.

On the demand side, net real income growth (1985-2006: 177 percent), all-time low interest rates (1991: 9.23 percent vs. 4.37 percent in 2006), financial liberalisation (MOW, 2003) and a high growth in the number of households (individualisation, immigration) has fuelled demand twofold. Firstly, the number of homeowners increased from 42 percent in 1985 to 54 percent in 2006 and secondly, they and all (prospective) homeowners witnessed a significant increase of their maximum loan capacity. Both led to higher demand in terms of housing quality and a shift in tenure choice away form the rental sector. Note that one may observe these trends in other European countries as well. On the supply side, two other trends are noticeable. Firstly, a reduction in the annual number of newly built houses, accompanied with a shift from rental dwellings to owner-occupied dwellings (to 72-thousand in 2006, equalling 1.1 percent of the housing stock) and secondly, higher turnover on the housing market, *i.e.* higher number of housing transactions.

The results of both trends were an unprecedented increase in house prices - nominal house prices rose over the period 1985 - 2006 with 371 percent (in real terms 216 percent); thereby putting pressure on the affordability, and hence, accessibility of the homeownership market for first-time buyers.

Figure 2 The development of house prices and outstanding mortgages during the period 1989 - 2005 (1989 = 100)



Red = house prices; blue = outstanding mortgages

Source WBO 1989, Woononderzoek 2006 (Housing Need Survey)

A high influx in the homeownership sector, higher house prices, an economic boom resulting in high income growth, all-time low interest rates led to a high demand for mortgages; mortgages which lenders were more than happy to provide. Over the last two decades, the sum of outstanding mortgage debt increased six fold, making the Dutch homeowners the number one consumers across Europe. Outstanding debt enumerate to 111 percent of gross domestic product; while the average mortgage debt amounts to €168,000. This debt is nowadays financed mainly by a combination of investment/savings mortgage and interest only mortgages; fixed interest rate period is on average 9 years (with younger households tend to go for more variable rates) while loan duration is normally fixed on 30 years. This high debt ratio is not to say that Dutch homeowners are - in general of course - very vulnerable. Like in other countries, lenders assess mortgage applications based on the three **C'**s: creditworthiness, capacity to pay and collateral. While, for instance in the US the emphasis in the assessment procedure lies with the collateral (loan to value ratio) and creditworthiness (credit rating), in the Netherlands the focus is more on the capacity to pay. Here lenders typically do not award mortgages to borrowers if the credit-capacity exceeds certain thresholds; *i.e.* the debt service ratio should not be in excess of 35 percent. In the past, occasionally, this 'rule' was not obeyed. Especially households with high prospects - *i.e.* highly educated, young households - could get higher loans with the joint expectation that in the near future, housing cost and income would be better balanced. Since 2007 however, this common practice is more formally regulated ('Code of Conduct Mortgage Lending') and gives both lenders and borrowers less room to lend more than the norm. These rules stipulate more information for the borrower, a better possibility to compare the various forms of mortgage credit, a better position (of the borrower) in case of an extra instalment or full early repayment of the mortgage loan and in case of financial difficulties and an uncomplicated and inexpensive procedure for filing complaints concerning noncompliance. Besides these more general rules (based on the European code of conduct), the Dutch agreement also includes a set of housing expense standards, indicating the percentage of the income that may be spent on housing expenses at a certain rate of interest. Using these standards, one can calculate how many times the income can safely be borrowed. For instance, based on the tables for the year 2007 and assuming a gross income of € 30,000 and a rate of interest of 5.5%, your borrowing capacity would approximately be € 130,000 (four and a third times the annual income). In that case, gross housing expenses make up about 30% of your gross income. The maximum acceptable housing expense percentage is set higher as the income increases.

In Table 3, some basic indicators of mortgage take-up are presented.

Table 3 Mortgage take-up amongst homeoweners and, especially, first-time buyers, and households with a low and middle income

	Debt-service ratio	Loan to income ratio	Loan to value ratio
Homeowners			
All	16.1	4.0	0.7
First-time buyers	22.6	2.6	1.2
Low income	26.3	4.5	0.7
Middle income	15.3	5.1	0.5

Source WBO 1989, Woononderzoek 2006 (Housing Need Survey)

It is clear from Table 3 that, on average, homeowners do not take on exceptionally high risks and also, that lenders are not taking on too many risks; *i.e.* for the vast majority of all borrowers the mortgage costs are well with their payment capacity. The debt service ratio is relatively low, with just a few percentages in the danger zone (see discussion in the previous section). Both, the loan to income ratio and the loan to value ratio are in a European perspective quite high (see European Mortgage Federation for a comparison). However, given the mortgage types used and the general financial support - the mortgage interest tax deductibility scheme - the actual costs are relatively low. Hence, the risks are low; actually, the numbers of arrears and repossessions are nowhere as low as in the Netherlands (< 0.8 percent, respectively < 0.06 percent). When zooming in on some subgroups, a few remarks are needed. Firstly, first-time buyers in the Netherlands do not necessarily put in any savings. I.e. their loan to value ratio might be as high as 1.25; on the other hand their loan to income is relatively low (to Dutch standards). For low or middle-income groups the opposite holds: they couple low loan to value ratios with higher loan to income ratios. In a way, the three C's discussed earlier, are not uphold forcefully. Lenders are trading off the expected credit risks (based on the high loan to value ratio's) with more secure loan to income ratios; and vice versa, when household are able to put up a high amount of own home equity, they qualify for higher mortgage loans (compared to their income). However, in the end, the resulting debt service ratio is the key criterion.

In the remainder of this section, we will firstly discuss more extensively the mortgage interest tax deductibility-scheme and secondly the mortgage guarantee. Both are general instruments that support homeownership. Thirdly, we will discuss recent initiatives to increase the accessibility of the homeownership sector (of course, these more general instruments do help first-time buyers as well!).

Mortgage interest tax deductibility-scheme

Nothing within Dutch housing policy is more 'ferociously' debated than the mortgage interest tax deductibility-scheme. It is seen by many as a vital instrument in making homeownership affordable; others perceive the instrument as the prime source for all the problems Dutch housing markets are facing now. The impact on the housing costs can hardly be overestimated. The fiscal facility consents homeowners to deduct all the interest paid on their mortgage at marginal income tax rates. In the Netherlands, the highest rate is 52 percent, while the average tax deductibility measures approx. 37 percent. I.e. the debt service rates as shown in Table 3 would rise with approx. 58 percent, making homeownership for many no longer sustainable.

For decades, this instrument was used by homeowners to lower monthly mortgage costs. However, during the 1990s, after the financial liberalization, things changed especially lenders willingness and borrowers' attitudes. Financial innovations led to more product variations and access to capital market was improved for many (low-income) households. High economic growth, low interest rates and the memory of the last housing crash (1981) slowly fading away, made households less risk aware. In between, the mortgage interest tax deductibility was used as 'lubricant'. Nowadays mortgages on offer and actually chosen, are all 'fiscal optimal', *i.e.* households will maximize tax relief in the short-run, instead of minimizing costs over the total life span of the mortgage. The choice by Dutch homeowners for non-repayment mortgages - savings/investment/interest only - is one indication for that preference.

On the downside, this implicit demand subsidy, led increasingly to higher consumption. Give the rigidness of housing supply, part of this increase in demand, naturally, led to house price inflation (see discussion before, Figure 2). This led to different inequalities: between first-time buyers and other homeowners (accessibility of the homeownership sector decreased) and between homeowners and renters (the increase in house prices bestow an upward pressure of rent levels). Fiscal optimization led, naturally, to an increase of governments' tax expenditure, from less than € 6 billion in 1995 to approx. € 12 billion in 2006. This intensified discussion in the Netherlands on the efficiency of the scheme: Does anyone benefit (house price inflation)? Do the right households benefit? Are these expenditures sustainable in the long run (interest increase)? Etc.

In Table 4, an overview is given of the efficiency and effectiveness of the system. Here, the latter refers primarily to what extent the target-group is reached, while efficiency refers to the *total* costs of the provision in relation to number of the actual beneficiaries (both target and non-target groups).

➔ **Table 4 (*end-of-report*)**

In the Netherlands, the number of beneficiaries of the mortgage tax relief-scheme enumerate to 3.3 million (some 88 percent of all homeowners). Together they had some €480 billion outstanding; (in 2005). In that year, they collectively paid nearly €26 billion interest on their mortgages. A sum that is eligible for deduction from taxable income. The total benefits for households were €9.9 billion[13]. Actually, it decreases mortgage payments on average with 37 percent. However, higher income households benefit considerable more than lower income households (€2,630 vs. €6,181) in two ways. Firstly, because interest paid is deductible at marginal tax rates; secondly, because higher income households normally have more expensive houses; a contradiction, which fuels

[13] Note that the figures in Table 4 is based on data from 2005; these numbers are slightly lower than discussed earlier (data based on 2007): a further increase of homeownership rates, outstanding mortgages and higher interest rates accounted for that.

the debate about the efficiency of the scheme. Finally, elderly households do not benefit much from the scheme €1,117 versus €3,225, mainly because the number of outright owners is relatively high in this segment (48 percent versus 6 percent).

Since 2005, tax expenditure on mortgage tax deductibility has risen to €12.5 billion. Of course, these expenditures are highly sensitive to interest changes. A one percent interest increase would ultimately lead to additional expenditure of €2.5 billion; however, since the fixed interest rate period is on average 9 years, this increase will only materialise when the interest rate increase is structural (annual increase approx. €260 million). Hence, the long-run sustainability of the system is debatable.

In the recent past, a few modifications are implemented in order to stimulate households to repay their debt and reduce claims on the governments' budget:

- Consumer loan rule: If one sells an owner-occupied property and buy another one, this may affect the deductibility of the (mortgage) interest. This is because you have to take the surplus value of the property sold into account when calculating the amount of outstanding mortgage on the property - *i.e.*, the amount of the principal sum on which the interest is tax deductible - in respect of the new property. The surplus value is the difference between the sale proceeds and the debt on the property sold. If you do not use the entire surplus value to finance the new property, you cannot deduct all the interest and charges.
- Tax deductibility is restricted to 30 years.
- Normally, households may deduct from their income any interest paid, however they also obliged to add to their income the imputed rental value of a dwelling. However, the latter can never exceed the former; *i.e.* when all outstanding mortgages are repaid; one no longer has to pay for the notional rental value of the dwelling.

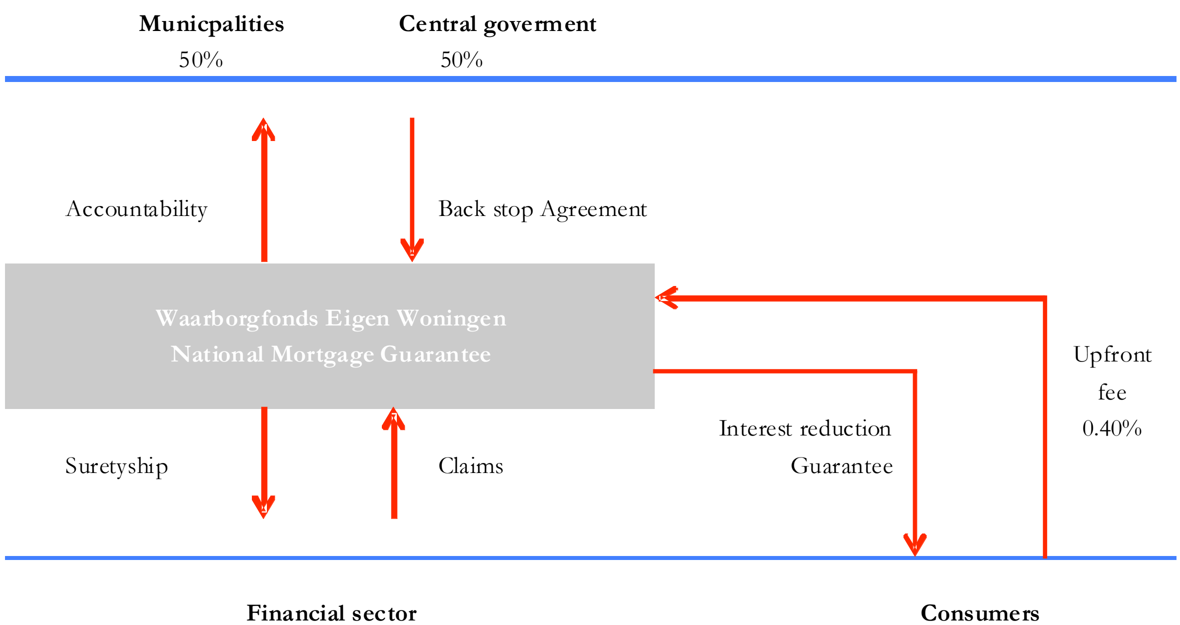
To date, the pressure to change the system is high; within the Netherlands and from international agencies (*e.g.* European Commission, IMF). In the light of the present credit crisis, there is the fear that the high mortgage burden - partly induced by the favourable fiscal system - may lead to problems; although it is fair to say that to date, the housing market is still strong with very low default problems. On the other hand, since so many households (voters) do depend on mortgage tax relief, it is no easy task to implement any change. See the next section on some further insights in the ongoing debate and some of the proposals put forward.

Mortgage guarantee fund

Government-backed guarantees and private mortgage insurance provide better access to the capital market, as less private equity is required. Moreover, homeowners and property owners can make housing more affordable thanks to lower interest rates. For mortgage lenders the guarantee provides regulatory capital relief and facilitates the securitization of mortgage loans.

A mortgage guarantee system exists in many countries. The Dutch national mortgage guarantee fund has a history that is typical for the continental European countries. Here, the mortgage guarantee is seen as a logical successor to government loans and subsidies. The guarantee (NHG) is meant, in particular, to provide the lower- and middle-income groups in the housing market with access to mortgages. This private foundation was established in 1995 as the successor to subsidized municipal mortgage guarantees and was part of the deregulation policy on housing in the 1990s. The main reasons for privatizing municipality guarantees were the lack of a fund structure to cope with defaults and the non-transparency, because each municipality could set its own terms and standards. After the losses incurred during the recession at the beginning of the 1980s municipalities and central government felt the need to control the risks and to introduce premiums for borrowers. These premiums could be used to establish a risk-fund to pay off any losses incurred in the case of repossessions of homes. Moreover, it was assumed that a national private fund would work more efficiently because of uniform conditions applied on lenders.

In 1995, the Dutch Mortgage Guarantee Fund (NHG) was created. Here borrowers could receive a guarantee from the Fund; the guarantee gives the lender the security that he will get back the principal of his loan including interest due. The borrower had to pay (just once) an upfront fee of 0.4 percent times the outstanding mortgage; however, the lender will give the borrower a discount on the interest rate up to 0.6 percent[14].



While the Dutch Mortgage Guarantee Funds is a private organisation, regulated by civil law, its ties to government are great; since both the state government and the municipalities have agreed backing the guarantees

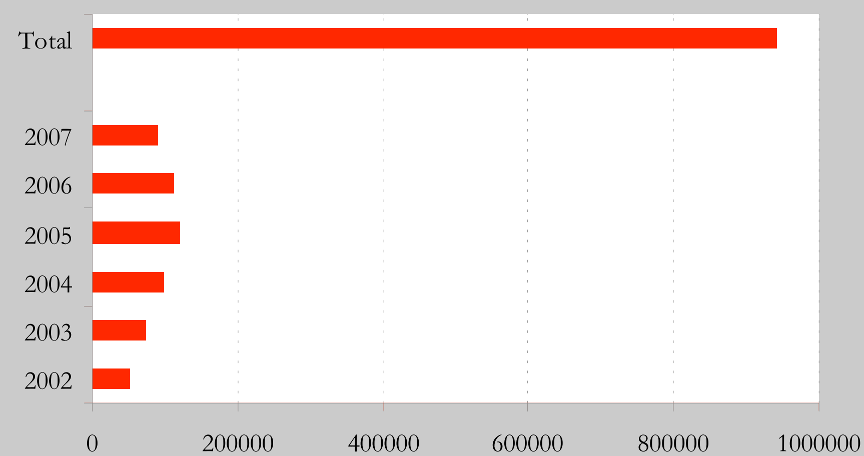
[14] So, within a year (or two) borrowers has reach a break-even point.

supplied[15]. Based on this 'fall-back' agreement, interest-free loans will be provided at times when the assets of the NHG are no longer sufficient. This means that the NHG is able to comply with its payment obligations at all times. As a result, the Dutch central bank considers the NHG as a government guarantee. Consequently, loans covered by the NHG are exempt from solvency requirements for the lender.
To date, the Dutch Mortgage Guarantee Fund was never forced to call on the government for backing (see hereafter).

Note that the original aim of the Dutch Mortgage Guarantee Fund was to promote homeownership amongst low-income households (improving accessibility of the capital markets). After 2000, it already became evident that the home ownership rate amongst low income households had not increased much: some of this due to good alternatives in the social housing sector and the high prices in the owner occupied sector. Over the years, however, the aim of the NHG shifted, broadened; *i.e.* besides their main task of giving mortgage guarantees also to encourage homeownership in general.

Since 1995, nearly a million households got a mortgage guarantee. Nowadays, the 'market share' is approximately one third. The vast majority of them got a guarantee when buying a house; however, since 2001 it is also possible to receive a mortgage guarantee when remortgaging (with or without residence upgrading). Figure 3 below gives an overview.

Figure 3 New mortgage guarantees by year (2002 - 2007) and total outstanding (ult. 2007)



Source WEW

[15] If the NHG needs additional backing of the Government, 50% is provided by the State, while the municipalities will provide the remaining 50%. They will do so accordingly to the in proportion of the claims by municipality.

Given the state backing, a mortgage guarantee is profitable for a lender (reducing credit risks); this security and the lower interest rate offered by lenders makes a mortgage guarantee also very desirable from the perspective of a borrower. The borrower actually applies for a mortgage guarantee. However, normally this task is done, on his/her behalf by the mortgage lender or his intermediaries. The vast majority of households are advised to take out a mortgage guarantee by the lender (or his intermediaries); however, consumer organisations, the media and the Dutch Mortgage Guarantee Fund (TV commercials) are informing households too.

A recent evaluation (Neuteboom and Dol, 2007) showed that the mortgagors with a guarantee are mainly middle and high income (78 percent), higher educated, and in majority they form a family (85 percent). The evaluation highlighted also the prime reasons why households apply for a mortgage guarantee: a majority (55 percent) did so because it offered enhanced security; a substantial minority (39 percent), however, was driven by the expected financial benefits (*i.e.* lower interest rate) it offered. This profile did not match policy ambitions. I.e. it is not considered as a problem that middle and high-income groups got a guarantee (since it will enlarge the risk pool), but the small number of low income households that have accessed home ownership with help of the Guarantee scheme is not deemed satisfactory. However, a significant increase of low-income - but high-risk - groups would lower the risk pool and hence higher fees are needed (leading to adverse selection) or the government had to accept these higher risks.

The evaluation also showed that many households that did receive a mortgage guarantee, could/would have gotten a mortgage anyway[16]; *i.e.* they passed mortgage lending criteria even without a mortgage guarantee. On the other hand, many low-income households did not qualify for a mortgage, even with a mortgage guarantee. In that respect, the NHG is not always successful in improving the accessibility of the homeownership market (their original mission). However, to date, they are recognized as one of the institutions, which are helping to stabilize homeownership markets in the Netherlands, and setting new lending criteria in the mortgage market.

In Table 5 the outstanding mortgage guarantees is depicted (2007: €95.6 billion) and the capital ratio. The capital ratio (0.43 percent) shows the amount of own equity the Fund has (in percentage of outstanding mortgage guarantees).This equity is the first to drawn on, when losses are mounting up. To date, the NHG has never been forced to ask government to back up any losses incurred.

[16] Note: the market share of the NHG is approx. 35% of the total market and 50% of houses sold below the house price of €265,000; the maximum level for which a household is still eligible for a mortgage guarantee.

Table 5 Outstanding mortgage gurantees (in billion euros), the capital ratio (in % of outstanding) and default (in million euros), 2001 - 2007

	Outst. Mortgages	Capital ratio	Defaults
2002	41.9	0.47%	1.0
2003	52.0	0.45%	3.3
2004	63.2	0.45%	7.1
2005	77.8	0.43%	14.8
2006	90.9	0.41%	19.9
2007	95.6	0.43%	24.3

Source WEW

However, as can be seen in the last column of Table 5, default percentages is very low. In 2007, defaults enumerated to €24.5 million (0.025 percent); in absolute numbers there were, in 2007, just 757 claims. Approx. 40 percent of the claims are connected with fraud; in these cases, any remaining mortgage debt is reimbursed to the lender, but the NHG will not wave its right to claim the amount from the (former) homeowner, as they normally would do.

In order to evaluate the efficiency and effectiveness of the system, we simply refer to Table 6.

➔ **Table 6 (*end-of-report*)**

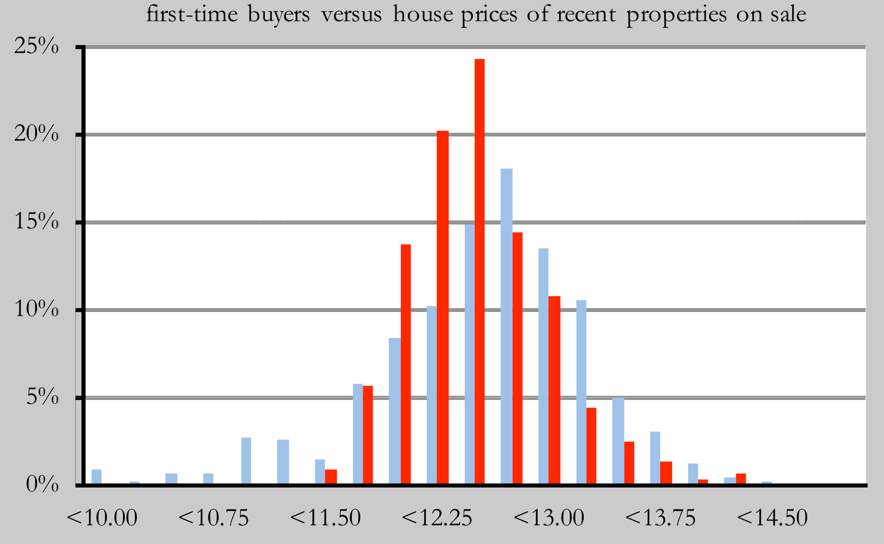
Amongst recent buyers, the 'market share' of National Mortgage Guarantee is approx. 35 percent. In 2006, they had secured nearly €20 billion. Individual households receive an annual interest discount of €69.5 million on the interest paid, by household approx. €533. This 'benefit' stem from the interest discount they receive from the lender. Of course enhanced security - whether perceived or not - plays a role as well, but these are hardly quantifiable (see table 5 for actual losses incurred and secured by the NHG).
Middle-income groups benefit the most; a combination of high mortgage take-up and a relatively low mortgage tax relief percentage are the basic ingredients for that. Note that besides these imminent advantages, some 16% all households that got a mortgage guarantee (9,000 households) could not enter the homeownership market without that guarantee. I.e. lenders made the granting of the mortgage conditionally on an abounding guarantee.

And further, the position of first-time buyers

Recall the discussion on housing affordability in general. There is growing concern that increasing numbers of households will not be able to enter homeownership; mainly because they lack the necessary resources (home equity) to put up for the financing of their home. The more general instrument like the mortgage interest tax relief and the mortgage guarantee schemes makes homeownership more affordable and the mortgage market more accessible. However, the gap between first-time buyers and buyers already on the housing market remains.

In the past, lenders were sometimes able to help first-time buyers, but today - more than ever - they have a strict and prudent lending practice. Therefore, with present high prices, choices for first-time buyers are limited (if any). In Figure 4 two distributions are shown (both in logarithm); one representing the maximum loan capacity for first-time buyers and secondly, the distribution of house prices on the market.

Figure 4 Distribution of the maximum borrowing capacity of first-time buyers versus house prices of recent properties on sale



Red = house prices; blue = maximum loan capacity;
Price and loan capacity are both in logarithm

Source Woononderzoek 2006 (Housing Need Survey)

It is clear from Figure 4 that both distributions do not match. In fact, for some 8% of all households their maximum loan capacity falls short for all dwellings on offer; *i.e.* this group will not succeed on the homeownership market whatsoever. On the other hand, for many (proposed) first-time buyers Figure 1 shows that there seems to be enough houses available.

This (apparent) inaccessibility of the homeownership market has induced the government and municipalities to search for various ways to support first-time buyers in their quest for homeownership. An overview:

- The national government tries to upgrade the present BEW. The BEW is styled like a normal housing allowances scheme, *i.e.* the BEW grants low-income household a yearly subsidy based on actual mortgage costs. However, since the maximum house price was restricted to €105,000 the scheme has a very limited impact (average house price is €240,000); even for low-income, young first-time buyers. Government has increased recently the available budget to €25 million and stretched the maximum house price to €150,000. Just a few hundreds of households have used this scheme from the year it was implemented.

- Municipalities are offering - with support by the government - special low interest loans to first-time buyers. The amount available and the below market rate differs by municipalities; a zero rate for the first five to eight years is not uncommon. The budget available is €40 million. This scheme is now slowly put into operation; however, the first signs are not very promising. Partly because the tuning between the subsidized mortgage and the commercial mortgage is not clear (ranking) and, still, the maximum loan capacity with subsidized loans falls short to house prices on the market.

It is expected that both initiatives eventually will reach some 17,500 household (over a period of five years); note that households cannot benefit from both arrangements.

- Housing associations, building companies and municipalities are trying to redirect future housing production more towards the building of flexible yet cheap housing, especially for first-time buyers. The lubricant for this are low land prices for these type dwellings; however, until know there are just a few designs that meet both the preference of first-time buyers and have low (enough) construction costs.
- Finally, a more popular form to promote homeownership (from a viewpoint of the policymaker), is the selling of rental dwelling by housing associations. State secretary Remkes in 2000 formulated the ambition to sell off 50,000 dwellings annually. However, the annual number that housing associations are actually selling, is far less (20,000), a number that has not substantially increased over the years. One of the greatest setbacks for this scheme is that the housing associations have become independent after 1995. Unlike Thatcher in Britain, Remkes could not force the housing associations to sell.
  More popular (by housing associations) is shared ownership. Under the present regulation, housing associations may offer to first-time buyers rental dwellings at below market prices (up to 30 percent discount). In return they have a share in future house price appreciation (in percentage, twice the discount given, based on the so-called fair value method). For households, homeownership become affordable; housing associations have the benefits of freeing some of their equity[17] and use that for other purposes of interest. Albeit increasing in popularity, for the vast majority of renters, the net rent (including rent allowance) is significantly lower than the mortgage costs (after discount and including mortgage tax relief); therefore numbers are relatively low (3,500 annually)

Most of these initiatives are of recent date (after 2006); so it is difficult to evaluate those initiatives. Two preliminary observations are firstly, that preference of first-time buyers do not match their abilities to pay (Brounen, 2008) and secondly, that given the impact of the credit crisis, the awareness of risks are more

[17] Normally, the value on the balance sheet is lower than the market price minus the discount.

pronounced, leading to more prudent behaviour by prospective homeowners (they are more-and-more awaiting events to come and postpone their start on the homeownership market[18]).

THE 'RISK SOCIETY' UNDER PRESSURE

For decades, it seems that the housing market could only go up. In the Netherlands, house prices increased continuously over the years; while income growth was high and interest rate all time low. However, with the credit crisis nearing and intensifying in the Netherlands, discerns about the future of the housing and mortgage markets increases. This fuels the debate about the future directions of Dutch housing policies.

For a while, Dutch politics 'agreed to disagree' and decided to ignore the swelling demands for a reform of the housing policies. Both, neoliberal ideology and economists' view of the world are questioning the present institutional context. I.e. their claim is that many housing market problems are caused (or will not be solved) by the prevailing institutions (especially regulations and subsidies) in the Netherlands. However, not all agree on this view, and certainly, the present crisis has put the 'liberals' in the defence.

In a good Dutch tradition, several councils are giving (or preparing) advice over different aspects of Dutch housing and mortgage markets. One strand of criticism focused on shortcoming in terms of housing market outcomes; a second strand focused more on the risk assessment of individual households (homeowners) and the financial sector. A selection:

- The REA (Council of Economic Advisors for the parliament) suggested putting an end to rent regulation.
- The Central Planning Agency, urging for the abolishment of the mortgage interest tax relief and restructuring of rent controls
- Last year, the VROM-council (Advisors to the Minster of Housing and Urban Planning) came with an integral analysis of the housing market and proposing various reforms.

In a nutshell they plea for a more active and targeted supply policy, tenure-neutral support for demand that is solely directed at lower- and middle income groups, and a more market compliant rent policy.

- Shortly, the report by the Commission Van Rijn will be published. This commission evaluated - on behalf of Minster of Housing and Urban Planning - the workings of National Mortgage Guarantee Fund and will propose new directions. They will reconfirm the key position of the NHG in stabilizing housing and mortgage markets and improving the accessibility of the homeownership market. They will also advice a withdrawal of municipalities in the working of the NHG. I.e. the state backing will be fulfilled solely by the State. Finally, the premium of the NHG should increase slowly, but a risk-based premium is dismissed.
- Finally, for next year, an advice by the SER (Council for socio-economic affairs, the most important advisory body of the government) is awaited. Although the details are not yet fully clear, it seems

[18] Maybe, also in anticipation of lower house prices in the future (by-the-way, this expectation is not shared by many professionals).

that they as well, will plead for reform of the mortgage tax deductibility scheme and to make a start with relaxing rent control (in line with the advice by the Central Planning Agency).

To date, the impact of the credit crisis on the housing and mortgage market is not very visible. Yes, house prices are stabilizing[19] while mortgage lending is less generous. But that process went on for the past two years; during that period transactions were going down and increasingly households wanted to sell their house first, before buying a new one (while in the earlier years of this century the opposite hold). However, much of the credit crisis is psychology and fear of the future is influencing behaviour of both professionals and consumers. Therefore, housing production is reduced and mortgage-lending criteria tighten, while households delay the buy of a (new) house. That way, a crisis might affect housing markets more profoundly.

Therefore, the government is under increased pressure to act, but is very reluctant to do so. Fear that 'acting' in one way or another fuels fears by consumers (self-fulfilling prophecy!) and, secondly, budget constraints making governments' options less likely. There are now, a few options under consideration (not yet decided):

- The maximum mortgage for which one is still eligible for mortgage guarantees might be raised from €265,000 to €350,000.
- A general reduction of transfer tax (now 6 percent) or, alternatively, a partial abolishment specifically for first-time buyers (to stimulate transaction on the housing market).
- Additional guarantees for builders and project developers to stimulate production, or, alternatively, pushing housing associations to increase their housing production.

Surely, all the long-term and short-term plans (advices) discussed above - about for instance, the abolishment of the mortgage tax relief and rent controls - are likely to wait for years before these ideas might be discussed openly and implemented in new policies. Moreover, even a simple raise of the maximum mortgage guarantee is not likely to happen within months. Since everyone realizes that discussing and implementing these, long-term, options will only add to the short-term sense of insecurity and will work out contra-dictionary. I.e., timing of the discussion and eventually implementing reforms is never an easy task.

[19] Though the bandwidth is considerable: Real estate agents claiming a decline of house prices by 0.2 percent (on a quarterly basis), while the Cadastral office noted an increase by 2.5%.

REFERENCES

Brounen, D. and P. Neuteboom, 2007, Assessing the accessibility of the homeownership market (*working paper*)

Boelhouwer, P., 2002, Trends in Dutch housing policy and the shifting position of the social rented sector, in *Urban Studies* 39 (2), pp. 219 -236

Boelhouwer, P., 2005, The incomplete privatization of the Dutch housing market: Exploding house prices versus falling house-building output, in *Journal of Housing and the Built Environment* 20 (4), pp. 363 – 378

Buys, A., A, Bogaerts en I. Giebers, 2007, *Wonen op een rijtje. De resultaten van het Woononderzoek Nederland 2006*, Rigo Research en Advies: Amsterdam

Conijn, J., F. den Breejen, M. Elsinga and P. Neuteboom, 2004, *Government guarantees in the rented and owner-occupier sector: an international comparison*, WEW: Zoetermeer

Department of Housing, Urban Development and the Environment, 1989, memorandum "*Housing in the 1990s*", MVROM: Den Haag

Department of Housing, Urban Development and the Environment, 2000, memorandum "*People, Wishes, Living*", MVROM: Den Haag

Dol, C.P. and P. Neuteboom, 2008, *Evaluatie Nationale Hypotheek Garantie*, OTB: Delft (report commissioned by the department of housing)

Kraan D.J. and C. Lever, *In Holland staat een huis*, Willem Drees stichting: Den Haag

Stichting waarborgfonds eigen woningen, *Annual report* (*various years*), WEW: Zoetermeer

Swank, J., J. Kakes and A.F. Tieman, 2002, *The housing ladder, taxation and borrowing constraints*, Amsterdam: Dutch Central Bank

VROM-raad, 2007, *Tijd voor keuzes. Perspectief op een woningmarkt in balans*, Den Haag: VROM-raad

APPENDIX

Tables

Table 4 Mortgage interest tax deductibility-scheme: quantification of the number of benificiaries and the net tax advantages (2005)

	Households	Homeownership rate	Mortgagors (%)	Idem, absolute	Mortgage interest paid	Net tax advantage	Idem, by household
	in millions			*in millions*	*in billions*	*in billions*	
Households							
All	7.0	53%	88%	3.3	€ 25.9	€ 9.9	€ 3,053
Age							
> 65 years	1.6	32%	51%	0.3	€ 1.1	€ 0.3	€ 1,117
< 65 years	5.4	59%	94%	3.0	€ 24.7	€ 9.6	€ 3,225
Income							
< €30,000	3.4	27%	84%	0.8	€ 5.1	€ 1.7	€ 2,630
€30,000 - €45,000	1.9	63%	88%	1.1	€ 7.5	€ 2.7	€ 3,634
> €45,000	1.7	92%	90%	1.4	€ 13.3	€ 5.5	€ 6,181

Source Department of Finance

Table 6 Mortgage gurantee-scheme: quantification of the number of benificiaries and the net advantages (2006)

	Households	Mortgagors, absolute	Recent buyers	With mortgage guar	Mortgage take-up	Estimated benefits	Idem, by household
	in millions	*in millions*			*in billions*	*in millions*	
Households							
All	7.0	3.3	11%	35%	€ 19.9	€ 69.5	€ 533
Age							
< 65 years	1.6	0.3	4%	9%	€ 0.2	€ 0.5	€ 604
> 65 years	5.4	3.0	13%	37%	€ 19.7	€ 69.0	€ 481
Income							
< €30,000	3.4	0.8	7%	31%	€ 1.2	€ 4.1	€ 238
€30,000 - €45,000	1.9	1.1	12%	28%	€ 7.7	€ 26.9	€ 772
> €45,000	1.7	1.4	13%	43%	€ 11.0	€ 38.5	€ 512

Source Department of Finance, Dol and Neuteboom (2008)